

Message Text

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ACTION SS-25

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TO SECSTATE WASHDC 1278
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C O N F I D E N T I A L SECTION 01 OF 05 BRUSSELS 09594

EXDIS

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DEPARTMENT PASS STR FOR AMBASSADORS STRAUSS AND WOLFF:
GENEVA FOR MTN (CULBERT)

E.O. 11652: GDS
TAGS: EEC, MTN, ETRD
SUBJECT: MTN: INDUSTRIAL TARIFFS FORMULA AND EXCEPTIONS

REF: (A) STATE 169891: (B) BRUSSELS 8719

I. SUMMARY

1. AT THE US-EC COMMISSION TIDEWATER TALKS
(REFTEL A) IT WAS AGREED THAT BOTH SIDES WOULD REFLECT
FURTHER ABOUT AN MTN TARIFF CUT FORMULA AND THE RELATED
EXCEPTIONS PROBLEM AND MEET AGAIN. IN PREPARATION FOR
THAT MEETING -- NOW SCHEDULED FOR SEPTEMBER 21 IN BRUSSELS
-- I HAVE MADE A NUMBER OF SOUNDINGS AND MUST REPORT THAT
IN MY JUDGMENT A MAJOR EFFORT WILL BE NECESSARY TO MOVE
THE COMMISSION TO A MORE FORTHCOMING POSITION THAN DENMAN
PROPOSES. THIS MESSAGE REPORTS ON THOSE SOUNDINGS,
ASSESSES SOME BACKGROUND INFORMATION, AND ADVANCES
SUGGESTIONS FOR RESOLUTION OF THE ISSUE.

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II. THE COMMISSION IS KEY:

2. IT IS VIRTUALLY AXIOMATIC THAT WHILE THE COMMISSION
CAN SOMETIMES, BY SKILLFULLY EXPLOITING VARIED INTERESTS
WITHIN THE COMMUNITY, MOVE INDIVIDUAL MEMBER GOVERNMENTS
FURTHER THAN THEY WOULD GO ON THEIR OWN, IT IS RARE
INDEED THAT THE MEMBER GOVERNMENTS ARE SUFFICIENTLY UNITED

TO MOVE THE COMMISSION TO A MORE LIBERAL POSITION THAN IT PROPOSES TO TAKE. THIS AXIOM IS PARTICULARLY TRUE IN THE TRADE AREA WHERE THE COMMISSION NEGOTIATES FOR THE COMMUNITY AND HAS THE RIGHT OF INITIATIVE TO PUT PROPOSALS TO THE COUNCIL. GIVEN THE HIGH LEVEL OF PROTECTIONIST SENTIMENT IN MOST MEMBER STATES THESE DAYS, IT IS ALMOST INCONCEIVABLE THAT THE NINE MEMBER STATES (HOWEVER FORTHCOMING THE FRG MIGHT WISH TO BE) WOULD SUCCESSFULLY PRESSURE THE COMMISSION TO BE MORE LIBERAL THAN IT JUDGES TO BE DESIRABLE. THUS, I THINK IT IS CRITICAL TO PERSUADE THE COMMISSION THAT DENMAN'S PROPOSAL ADVANCED AT TIDEWATER IS NOT GOOD ENOUGH AND TO DO THIS BEFORE THE MEMBER STATES ADOPT THE COMMISSION IDEAS AS THE OFFICIAL COMMUNITY POSITION.

3. SO FAR, IF WE UNDERSTAND THE SITUATION IN THE COMMUNITY CORRECTLY, DENMAN HAS INFORMALLY PUT HIS IDEAS TO THE MEMBERS OF THE 113 COMMITTEE, BUT NO FORMAL PROPOSAL OR DISCUSSION HAS YET OCCURRED. THERE IS APPARENTLY SOME RESISTANCE FROM THE GERMANS TO THE IDEA OF A LESS DEEP CUT THAN THE COMMISSION PROPOSED ON BEHALF OF THE COMMUNITY IN GENEVA AND RESISTANCE FROM SOME OTHER STATES TO THE IDEA, AT LEAST INITIALLY, OF AVOIDING EXCEPTIONS. IN THIS CONNECTION THE LANGUAGE OF THE 1975 COUNCIL DIRECTIVE TO THE COMMISSION IS IMPORTANT TO BEAR IN MIND:

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THE COMMUNITY DOES NOT EXCLUDE THE POSSIBILITY OF A LIMITED NUMBER OF EXCEPTIONS. IT WILL DECIDE ON THE DISTRIBUTION AND THE EXTENT OF SUCH EXCEPTIONS AS MAY BE NECESSARY IN A SUBSEQUENT PHASE OF THE NEGOTIATIONS, TAKING INTO ACCOUNT THE ATTITUDE OF THE OTHER NEGOTIATING PARTIES.

4. THE COMMISSION'S MTN STEERING GROUP (JENKINS, HAFERKAMP GUNDELACH, AND DAVIGNON PLUS THEIR RESPECTIVE DIRECTORS GENERAL AND/OR CHEFS DE CABINET) AUTHORIZED "EXPLORATION" WITH THE US OF THE DENMAN APPROACH EVEN BEFORE AMBASSADOR STRAUSS' JULY 11 VISIT TO BRUSSELS. AS FAR AS WE KNOW, HOWEVER, THE COMMISSION HAS NOT YET TAKEN A FORMAL DECISION. IN ANY CASE, A COMMISSION DECISION WOULD CERTAINLY NOT BE DIFFERENT FROM THE STEERING GROUP VIEWS WERE THE STEERING GROUP TO REACH A CONSENSUS.

5. AS OF NOW, THE STEERING GROUP IS NOT ENTIRELY AGREED (SEE 7 BELOW) BUT HAFERKAMP IN HIS CONFIDENTIAL MTN MEMO TO THE COMMISSION OF JULY 12 (SEE REFTEL B), DOUBTLESS WRITTEN BY DENMAN AND REFLECTING STEERING GROUP VIEWS AS OF THAT TIME, INFORMED HIS COLLEAGUES AS FOLLOWS:

BEGIN QUOTE. INDUSTRIAL TARIFFS: THE DIRECTIVE
OF FEBRUARY 1975 PROVIDED FOR "A SIGNIFICANT
LOWERING OF DUTIES" WITH A CERTAIN BUILT-IN
HARMONISATION OF TARIFFS BETWEEN THE MAJOR PARTI-
CIPANTS (IT WAS UNDERSTOOD AT THE TIME AND SO
ENTERED IN THE COUNCIL'S MINUTES THAT IN THIS IN-
STANCE "SIGNIFICANT" MEANT BETWEEN 25 AND 50 PERCENT).
WE SHALL NEED TO EXPLORE WITH THE AMERICANS IN THE
FIRST INSTANCE WHAT SORT OF TARIFF FORMULA MIGHT

NOTE BY OC/T: NOT PASSED STR.

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BE ACCEPTABLE. THEIR OPENING POSITION HAS BEEN
A PROPOSAL FOR A 60 PERCENT CUT IN TARIFFS --
REFLECTING THE FULL POWERS GIVEN IN THE US TRADE
ACT. BUT OF COURSE THE LEVEL OF THE TARIFF CUT
PROPOSED IS CLOSELY RELATED TO THE NUMBER OF
EXCEPTIONS. I THINK IT IS IMPORTANT THAT WE SHOULD
REACHING AGREEMENT WITHIN THE COMMUNITY ON A LIST
WOULD TAKE A YEAR OR MORE. SO WE NEED TO EXPLORE
WITH THE AMERICANS THE SORT OF TARIFF CUT WHICH
WOULD BE COMPATIBLE WITH NO EXCEPTIONS (OTHER THAN
STATUTORY ONES RESULTING FROM US LEGISLATION).
(WE SHALL NEVERTHELESS RETAIN THE RIGHT TO ESTABLISH
RECIPROCITY IF NECESSARY BY WITHDRAWING CONCESSIONS
AT THE END OF THE DAY). ANY SUCH TARIFF CUT WOULD
PROBABLY BE NEARER THE LOWER END OF THE 25 - 50
PERCENT RANGE THAN THE HIGHER. END QUOTE.

6. MORE GENERALLY, IN HIS JULY 11 MEMO ON TRADE POLICY, HAFERKAMP REBUTTED ARGUMENTS BY "DOUBTERS" OVER LIBERAL TRADE POLICY AS FOLLOWS:

BEGIN QUOTE: THESE DOUBTS ARE BEST ANSWERED
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TOGETHER.

A) CURRENCY FLUCTUATIONS DO NOT REMOVE THE NEED TO TACKLE TARIFFS. EVEN WHEN A PARITY CHANGE MAKES EXPORTS MORE DIFFICULT, IT SIMULTANEOUSLY CHEAPENS THE RAW MATERIAL IMPORTS FOR THE MANUFACTURER CONCERNED. BUT CURRENCY FLUCTUATIONS CANNOT BE FORESEEN; TARIFFS ARE PERMANENT, AND THEY CONSTITUTE A BARRIER TO TRADE RECOGNIZED BY PRODUCERS AND IMPORTERS ALIKE AS IMPORTANT IN A WHOLE RANGE OF SECTORS. SOME SEEMINGLY LOW TARIFF RATES HAVE IN FACT, IF LEVIED ON SEMI-PROCESSED MATERIALS AND THUS REPRESENT A "TAX" ON THE ADDED VALUE, AN EXTREMELY HIGH INCIDENCE AND ALTHOUGH THE COMMON CUSTOMS TARIFF IS ON AVERAGE LOW, HIGH AMERICAN TARIFFS IN A NUMBER OF SECTORS OF SOME IMPORTANCE TO COMMUNITY EXPORTERS SUCH AS WOOL TEXTILES, PRECISION INSTRUMENTS, CHINA AND PORCELAIN INHIBIT A GOOD DEAL OF TRADE; SO DO A COMBINATION OF TARIFFS AND NON-TARIFF BARRIERS IN JAPAN. SO THERE ARE SOME SOLID IF UNSPECTACULAR GAINS TO BE GOT FOR THE COMMUNITY BY FURTHER PROGRESS ALONG THE ROAD OF TARIFF REDUCTIONS.

B) BUT THE FACT THAT TARIFFS STILL HAVE SOME IMPORTANCE DOES NOT MEAN THAT REDUCTIONS POSSIBLE IN THE COMMON CUSTOMS TARIFF ARE LIKELY SERIOUSLY TO JEOPARDIZE EMPLOYMENT IN COMMUNITY COUNTRIES. IT WOULD CERTAINLY BE SENSIBLE TO AIM AT SUBSTANTIALLY MORE MODEST CUTS THAN IN THE HAPPIER MORE EXPANSIONARY DAYS OF THE KENNEDY ROUND. BUT THE CCT IS GROUPED MUCH MORE UNIFORMLY ROUND AN AVERAGE OF EIGHT PERCENT; THUS IF THE AVERAGE TARIFF REDUCTION AT THE
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END OF THE DAY WERE IN THE REGION OF TWENTY PERCENT . OR RATHER LESS WHAT WOULD BE INVOLVED WOULD BE A REDUCTION OF UP TO TWO PERCENTAGE POINTS BEGINNING SAY IN 1979 (ASSUMING THE NEGOTIATIONS ENDED IN

1978 AND NEEDED THE USUAL YEAR FOR RATIFICATION)
AND IMPLEMENTED IN STAGES OVER SEVERAL YEARS. IT
IS DIFFICULT TO IMAGINE THAT REDUCTIONS OF THIS
DEPTH AND THIS SCALE WOULD DAMAGE SUBSTANTIALLY
EUROPEAN INDUSTRIES BUT APPLIED TO SOME MUCH HIGHER
RATES IN THE US AND JAPAN SOME USEFUL PROSPECTS
COULD BE OPENED UP FOR OUR EXPORTERS.

C) OUR INDUSTRIAL DIFFICULTIES DO NOT IN MANY CASES
COME FROM IMPORT PENETRATION. AND EMPLOYMENT DEPENDS
ALSO ON OUR EXPORTS. END QUOTE.

III. SOUNDINGS

7. COMMISSIONER GUNDELACH, IN DISCUSSING THE SITUATION
WITH ME, WAS CATEGORIC IN SAYING THAT THE DENMAN APPROACH
WOULD PRODUCE DISASTROUS RESULTS. HE ASSERTS THAT THE
PRESSURES FOR EXCEPTIONS WITHIN THE COMMUNITY WILL BE
INTENSE AT ANY LEVEL OF CUT. CONSEQUENTLY HE SEES THE
LOWER CUT-NO EXCEPTIONS APPROACH AS ILLUSIONARY. HE ALSO
ARGUES THAT WITHOUT MORE SUBSTANTIAL INDUSTRIAL TRADE
LIBERALIZATION, HE WILL BE UNABLE TO BRING THE MEMBER
STATES AND THE FARM INTERESTS ALONG IN FAVOR OF THE KIND
OF AGRICULTURAL PACKAGE HE HAS DISCUSSED WITH SECRETARY
BERGLAND AND AMBASSADOR STRAUSS. HE FINDS THE DENMAN-
DAVIGNON ALLIANCE DISTURBING BUT SAYS THE FINAL COMMISSION
POSITION IS NOT YET FIXED AND THAT HE WILL DO HIS BEST
TO WORK FOR A FORMULA PROVIDING FOR A DEEPER CUT. WHILE
HE SAYS HE WILL THINK FURTHER ABOUT THE COMMISSION'S
APPROACH, HE SEEMS TO FAVOR THE COMMUNITY FORMULA NOW ON
THE TABLE IN GENEVA PLUS AN EFFORT AT DENMAN'S NO EX-

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CEPTIONS PLOY.

8. COMMISSIONER DAVIGNON HEARD ME OUT ON THE SUBJECT, INDICATING WITH HIS USUAL SMOOTHNESS THAT HIS MIND IS STILL OPEN. INDEED AT ONE POINT DURING OUR MFA TALKS, HE SAID HE THOUGHT THE COMMISSION COULD GO FURTHER THAN THE DENMAN FORMULA. WITH HIM I HAVE STRESSED THE OVERALL POLITICAL IMPORTANCE OF THE MTN, AMBASSADOR STRAUSS' STATEMENT TO HIM THAT HE WOULD NOT BE A PARTY TO A "FRAUD," - I.E., THAT THE MTN HAS TO PRODUCE SUBSTANTIAL RESULTS - AND THE NEED FOR EUROPEAN INDUSTRY, IF IT IS TO DIVERSIFY AWAY FROM THE SICK SECTORS (STEEL, SHIPBUILDING, TEXTILES), TO DEVELOP NEW MARKET OPPORTUNITIES, WHICH SUBSTANTIAL CUTS IN THE US AND JAPANESE TARIFFS COULD PROVIDE. I HAVE SUGGESTED TO HIM, AND HE TENDS TO AGREE, THAT HIS RESTRUCTURATION PROGRAMS WILL INEVITABLY FAIL UNLESS EUROPEAN RESOURCES CAN BE TRANSFERRED INTO NEW PRODUCTIVE AREAS, AND THAT THIS WILL BE EASIER IF MARKETS ARE BEING OPENED IN THE REST OF THE WORLD. I ADDED THAT A 25 PERCENT TARIFF CUT STAGED OVER FIVE OR TEN YEARS WILL NOT PROVIDE MUCH NEW STIMULUS FOR ANYONE. ON PAST FORM, I WOULD JUDGE THAT DAVIGNON IS PREPARED TO LOOK FOR SOME CHANGE IN THE CONFIDENTIAL

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DENMAN APPROACH WHICH WOULD MAKE IT MORE ACCEPTABLE TO US, BUT I WOULD NOT EXPECT HIM TO BE VERY BOLD, ESPECIALLY SINCE HIS DIRECTOR GENERAL, FERNAND BRAUN, WHO HAS VAST EXPERIENCE BOTH WITH EUROPEAN INDUSTRY AND WITH TRADE NEGOTIATIONS, GIVES EVERY SIGN OF BEING EVEN MORE OF A MINIMALIST ON TARIFF ISSUES THAN DEMAN. ON THE OTHER HAND, BRAUN IS INTERESTED IN SIGNIFICANT PROGRESS ON A NUMBER OF NTB PROBLEMS.

9. JUST BEFORE DEPARTING ON THEIR VACATIONS DENMAN AND RAYMOND PHAN VAN PHI TOLD ME IN THE STRONGEST IMAGINABLE TERMS THAT SO FAR THEIR "REFLECTING" ON THE TIDEWATER TALKS HAD CONFIRMED THEM IN THEIR INSISTANCE ON THE THREE ITERATION -NO EXCEPTIONS APPROACH. ACCORDING TO DENMAN, IT WOULD SIMPLY BE IMPOSSIBLE TO GET THE COMMUNITY INTO A POSITION WHERE MORE THAN A 20 PERCENT OVERALL CUT WOULD RESULT FROM THE TOKYO ROUND. "YOU MUST BE REALISTIC," HE INSISTED, "NOTHING MORE IS IN THE CARDS." WHEN I SAID THAT IN MY JUDGMENT SUCH A MINIMAL CUT WAS NOT IN EUROPE'S INTEREST AND ARGUED THAT "POLITICALLY MORE WAS NECESSARY AND ECONOMICALLY MORE WAS FEASIBLE," HE REPLIED THAT IF STRAUSS SHARED MY VIEW, IT WOULD BE WELL TO FIND THAT OUT

SOON AND TO GET THE WHOLE BUSINESS OVER WITH. HIS FORMULA PLUS THE OTHER MTN ELEMENTS ON WHICH PROGRESS WAS MADE AT TIDEWATER HE ASSERTED WOULD PRODUCE A RESPECTABLE PACKAGE AND IN HIS JUDGMENT WAS THE MAXIMUM OBTAINABLE. STRAUSS MIGHT THINK OTHERWISE, BUT "STRAUSS DOES NOT KNOW BALLS ABOUT TARIFFS. I DO AND, AS ERNIE BEVAN USED TO SAY, THAT'S THE WAY IT IS," AND WE SHOULD SO ADVISE WASHINGTON. TO WHICH I RESPONDED THAT I WOULD ADVISE WASHINGTON THAT THAT WAS HIS VIEW BUT THAT FRANKLY I DIDN'T SHARE IT AND I WAS DISAPPOINTED THAT HE HAD NOT THOUGHT OF A BETTER
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ANSWER. THIS LED HIM TO SAY THAT OF COURSE IF WE DID NOT WANT AGREEMENT ON A SINGLE FORMULA, IT WOULD BE POSSIBLE FOR THE COMMUNITY TO FOLLOW ITS FORMULA WITH NO EXCEPTIONS INITIALLY, WHILE WE MADE OFFERS WITH A DIFFERENT FORMULA INCLUDING EXCEPTIONS. THEN HE ATTACKED, SAYING THAT THROUGHOUT THE POST-WAR PERIOD THE US HAD HELD BACK CONCESSIONS ON THE REALLY INTERESTING TRADE ITEMS FOR EUROPEANS AND HE COULD SEE THAT ONCE AGAIN OUR EXCEPTIONS WOULD INCLUDE WOOL TEXTILES, PRECISION INSTRUMENTS, AND CHINA AND PORCELAIN. I SAID I DIDN'T KNOW ABOUT OUR EXCEPTIONS, BUT IF THE FUTURE OF EUROPEAN EXPORTS DEPENDED ON WOOL TEXTILES AND CHINA, THEN EUROPE DIDN'T HAVE MUCH FUTURE, EVEN IF THE US ELIMINATED ITS TARIFFS ON THOSE ITEMS. WHEN PHAN VAN PHI ASKED ME TO JUSTIFY MY ASSERTION THAT THE DENMAN PROPOSAL WAS NOT REALLY IN THE COMMUNITY'S INTEREST, I SAID I HELD THAT VIEW FOR ESSENTIALLY TWO REASONS: IT WAS AN APPROACH WHICH WOULD CONFIRM ECONOMIC STAGNATION IN EUROPE AND ONE THAT COULD CREATE POLITICAL TENSIONS ACROSS THE ATLANTIC.

10. MORE BRIEFLY I HAVE LET HAFERKAMP AND HIS CHEF DE CABINET FROSCHMAIER KNOW THAT SOMETHING BETTER THAN THE DENMAN APPROACH IS NECESSARY. THEY SAY THEY WILL THINK ABOUT IT OVER THE AUGUST HOLIDAYS, BUT UNFORTUNATELY THEY OFTEN LET OTHERS DO THEIR THINKING FOR THEM.

11. WHILE I WOULD PREFER TO HAVE INSTRUCTIONS BEFORE DISCUSSING THE SITUATION WITH COMMISSION PRESIDENT JENKINS (WHO INCIDENTALLY BROUGHT DENMAN HERE AND RELIES ON DENMAN IN THE TRADE AREA), I HAVE TALKED ABOUT IT WITH HIS CHEF DE CABINET CRISPIN TICKELL, STRESSING THE POLITICAL IMPORTANCE, AS I SEE IT, FOR US-EC RELATIONS OF SUBSTANTIAL TARIFF CUTS PARTICULARLY IN THE LIGHT OF THE NOW COMPLETE EC-EFTA INDUSTRIAL FREE TRADE AREA AND PROSPECTS FOR

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COMMUNITY ENLARGEMENT TO PROVIDE DUTY FREE ENTRY FOR GREECE
PORTUGAL, AND SPAIN. HE LISTENED IN A NONCOMMITTAL WAY,
EXCEPT FOR ONE COMMENT TO THE EFFECT THAT A 25 PERCENT CUT
WASNT BAD, TO WHICH I REPLIED THAT WITH WITHDRAWALS WE
WOULD BE LUCKY TO REACH 20 PERCENT, AND THAT, STAGED OVER
FIVE OR MORE YEARS, WAS PRACTICALLY NOTHING IN TERMS OF
POLITICAL IMPACT. ON THE MORE POSITIVE SIDE, TICKELL IS
VERY MUCH AWARE THAT HE WILL HAVE TO EXPLAIN THE COMMUNITY
POSITION WHEN THE DOWNING STREET SUMMIT MONITORING GROUP
MEETS.

IV. ASSESSMENT

12. THUS, THE LINEUP AS I READ IT IS HAFERKAMP -- PROBABLY
PREPARED TO GO FURTHER BUT DOMINATED BY A STRONG DIRECTOR
GENERAL (DENMAN) WHO MAY BE MERELY "NEGOTIATING" BUT WHO
APPEARS TO BE DUG IN; DAVIGNON, WHO WILL LOOK FOR MIDDLE
GROUND; GUNDELACH, OSTENSIBLY FIGHTING FOR A MORE LIBERAL
APPROACH; AND JENKINS, WHO ATTACHES IMPORTANCE TO GOOD
RELATIONS WITH THE US BUT WHO HATES TO GO BEYOND GENERALI-
TIES TO INTERVENE IN MATTERS OF ECONOMIC DETAIL.

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13. AS TO SUBSTANCE, IN MY VIEW, DENMAN IS WRONG, EVEN
THOUGH CIRCUMSTANCES HAVE CHANGED, IN PULLING BACK TO THE
LONG-PREFERRED FRENCH POSITION (THREE ITERATIONS) FROM THE
FOUR ITERATIONS PROPOSAL SIR CHRISTOPHER SOAMES CLEARED

WITH THE COUNCIL IN 1976. EVEN THAT POSITION WAS WELL BELOW THE COMMUNITY'S MAXIMUM ENVISAGED BY THE MINISTERS IN 1975, AND SOAMES CLEARLY MEANT TO NEGOTIATE UP, NOT DOWN. ON THE OTHER HAND, DENMAN IS RIGHT, I BELIEVE, IN SEEKING A WAY TO AVOID A FORMAL EXCEPTIONS EXERCISE WITHIN THE COMMUNITY SUCH AS TOOK PLACE DURING THE KENNEDY ROUND. HE IS RIGHT BOTH IN ASSERTING THAT IT PROBABLY COULD NOT BE COMPLETED IN TIME FOR COMMUNITY OFFERS TO BE ON THE TABLE BY JANUARY 15, 1978, AND IN ASSERTING THAT THE EXCEPTIONS LIST WHICH WOULD RESULT FROM SUCH AN EXERCISE WOULD BE STAGGERING. YET HE CLEARLY CONTEMPLATES EXCEPTIONS IN THE FORM OF "COMPENSATORY WITHDRAWALS" LATER IN THE NEGOTIATIONS. WHETHER OR NOT AT THAT TIME THE COMMISSION COULD SUCCESSFULLY LIMIT THE DAMAGE CAN ONLY BE SPECULATED ABOUT, BUT TACTICALLY THE COMMISSION WOULD APPEAR TO BE IN A STRONGER POSITION AS A RESULT OF SILENCE ON THE EXCEPTIONS QUESTION NOW THAN IF A FORMAL EXCEPTIONS EXERCISE WERE RUN WITHIN THE COMMUNITY. STILL THIS DOES NOT CHANGE THE FACT THAT THE COMMUNITY FORMULA ITERATED THREE TIMES LEADS ALMOST CERTAINLY TO AN OVERALL RESULT IN THE TARIFF AREA OF 1/3 OF THE MAXIMUM OBTAINABLE FROM THE US PROPOSAL.

V. WHAT TO DO?

14. NOT KNOWING THE RELATIVE WEIGHT US POLICYMAKERS ATTACH IN THESE NEW CIRCUMSTANCES TO (A) MEETING JANUARY 15 DEADLINE; (B) LIMITING EXCEPTIONS; AND (C) A SUBSTANTIAL TARIFF FORMULA HYPOTHESIS, I CAN ONLY OFFER A CONFIDENTIAL

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FEW THOUGHTS:

15. THE WAY TO MAXIMIZE RESULTS IN TERMS OF THE ABOVE THREE VARIABLES -- IF IT IS FEASIBLE DOMESTICALLY -- WOULD BE TO AGREE WITH THE COMMISSION TO SEEK IN GENEVA A "NO EXCEPTIONS OTHER THAN MANDATORY" RULE, PROVIDED THE COMMISSION WILL AT LEAST MAINTAIN THE COMMUNITY TARIFF FORMULA PROPOSAL ALREADY ON THE TABLE. EVERYONE WOULD, OF COURSE, RESERVE THE RIGHT TO MAKE "COMPENSATORY WITHDRAWALS" TO ACHIEVE RECIPROCITY. LESS USEFUL BUT PERHAPS OF REAL TRADE-OFF VALUE WOULD BE US ASSURANCES ABOUT "WOOL TEXTILES, PRECISION INSTRUMENTS, CHINA AND PORCELAIN."

16. IF TIME CAN BE SACRIFICED, WE COULD PERHAPS GET A SOMEWHAT BETTER FORMULA THAN FOUR ITERATIONS BY AGREEING THAT OFFERS WOULD ONLY BE TABLED AFTER A FULL-SCALE EXCEPTIONS REVIEW HERE AND ELSEWHERE. PERSONALLY I THINK THIS WOULD BE A MISTAKE.

17. ANOTHER AVENUE FOR EXPLORATION WOULD BE A FORMULA IN BETWEEN THE PREVIOUS COMMUNITY PROPOSAL AND DENMAN'S IDEAS. THERE ARE, OF COURSE, MANY POSSIBILITIES, BUT ONE THAT ATTRACTS ME BOTH BECAUSE IT WOULD HELP WITH CANADA'S CONCERN OVER THE FLOOR AND PRODUCE A MORE RESPECTABLE OVERALL REDUCTION, WOULD BE THREE ITERATIONS OF $X \text{ EQUAL } Y \text{ AND THEN SUBTRACTING } A$ (ANY FIXED CONSTANT -- IDEALLY FIVE BUT MORE REALISTICALLY TWO OR THREE).

18. ANOTHER APPROACH WORTHY OF CAREFUL APPRAISAL WOULD BE TO BUILD ON DENMAN'S APPARENT FALLBACK POSITION, ACCEPTING THE IDEA OF MAJOR PARTICIPANTS USING DIFFERENT FORMULAE AND EXCEPTIONS PROCEDURES, BUT SEEKING AGREEMENT THAT THE END RESULT, TAKING INTO ACCOUNT EXCEPTIONS, PARTIAL EX-

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CEPTIONS, AND DEEPER CUTS, TO BE MADE BY MOVES TO ZERO OR BY DEEPER THAN FORMULA PERCENTAGE CUTS WOULD OVERALL (FOR INDUSTRIAL TARIFFS LESS POL) EXCEED "X", E.G., 30 PERCENT.

19. IN ANY CASE, IT IS CLEAR THAT THE OBJECT SHOULD BE TO GET COMMISSION AGREEMENT TO CONSIDERABLY BETTER THAN WHAT DENMAN PROPOSES. WITH SKILL IT CAN BE DONE SINCE DENMAN IS AT THE FLOOR OF THE COMMISSION'S 1975 MANDATE FROM THE COUNCIL, AND THERE IS PLENTY OF ROOM ABOVE THAT FLOOR.

20. TACTICALLY, WHILE IT IS NOT TO BE EXCLUDED THAT DENMAN WILL GIVE SOME GROUND ON HIS OWN, IT IS MY JUDGMENT THAT

PRIOR TO WOLFF'S ARRIVAL WE SHOULD PREPARE THE WAY WITH THE COMMISSIONERS DIRECTLY INVOLVED. WE SHOULD SEEK TO INFLUENCE THE COMMISSION'S MTN STEERING GROUP BEFORE THE DENMAN-WOLFF TALKS AND BEFORE THE MEMBER STATES DECIDE THEY LIKE THE DENMAN APPROACH. THUS, IN THE FIRST FIFTEEN DAYS OF SEPTEMBER CABLED INSTRUCTIONS FOR A WRITTEN APPROACH PLUS STRAUSS PHONE CALLS TO JENKINS, HAERKAMP, GUNDELACH, AND DAVIGNON ASKING THEM TO HELP WOULD BE DESIRABLE.

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21. AT SOME POINT A LETTER FROM THE PRESIDENT TO JENKINS COULD BE DECISIVE, BUT AGAIN WE SHOULD NOT WAIT TOO LONG, SINCE JENKINS CAN MUCH MORE EASILY INFLUENCE HIS FELLOW COMMISSIONERS BEFORE A DECISION IS TAKEN THAN CHANGE IT AFTERWARDS. IF SUCH A LETTER WERE TO BE DEEMED ADVISABLE, IT SHOULD BE COUCHED BOTH IN TERMS OF OVERALL POLITICAL IMPORTANCE AND CONTAIN A SPECIFIC PROPOSAL, OR AT LEAST A REFERENCE TO A SPECIFIC PROPOSAL SET FORTH ELSEWHERE. OTHERWISE, JENKINS WILL OPERATE ON SUCH A LEVEL OF GENERALITY AS TO BE LARGELY INEFFECTIVE.

22. IN ADDITION, AGAINST THE CLEAR CHANCE THAT WOLFF AND DENMAN WILL FAIL TO AGREE, HOWEVER WELL THE PREPARATORY PHASE IS CARRIED OUT, AMBASSADOR STRAUSS SHOULD BE READY TO FOLLOW UP AT THE COMMISSIONER LEVEL IN BRUSSELS ALMOST IMMEDIATELY THEREAFTER.

23. FINALLY, AS WASHINGTON THINKING JELLS, BUT BEFORE WRITTEN POSITIONS ARE PROVIDED THE COMMISSION, I WOULD URGE THAT CULBERT, WHO I HOPE WILL COMMENT ON THIS MESSAGE FROM HIS WIDER PERSPECTIVE, AND I BE GIVEN AN OPPORTUNITY TO COMMENT. HINTON

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Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1679017
Secure: OPEN
Status: NATIVE
Subject: MTN: INDUSTRIAL TARIFFS FORMULA AND EXCEPTIONS
TAGS: ETRD, US, EEC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0fd95160-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009